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**COMMONWEALTH OF VIRGINIA, *ex rel.***

**TERESA WHITMORE, *et al.***

**v.**

**VALLEY RIDGE WATER COMPANY, INC.**

**CASE NO. PUE010363**

**REPORT OF ALEXANDER F. SKIRPAN, JR., HEARING EXAMINER**

**February 20, 2002**

Valley Ridge Water seeks an increase in rates for service rendered on and after July 1, 2001. More specifically, Valley Ridge Water proposes increasing its monthly charge for unmetered customers from \$22.00 to \$33.00. In addition, Valley Ridge Water proposes to increase its metered rates for the first two thousand gallons from \$19.00 to \$23.00, and to increase the charge for each thousand gallons used in excess of two thousand gallons from \$3.50 to \$4.20. Staff recommends approval of the increase requested by Valley Ridge Water.

**HISTORY OF THE CASE**

In a letter dated May 12, 2001, Valley Ridge Water Company, Inc. (“Valley Ridge” or “Company”) notified its customers and the Commission of its intent to increase its rates for service rendered on and after July 1, 2001. The Company filed its notice pursuant to the Small Water or Sewer Public Utility Act.<sup>1</sup> The Company’s current and proposed rates are as follows:

	<b><u>Current</u></b>	<b><u>Proposed</u></b>
Unmetered Customers	\$22.00 per month	\$33.00 per month
Commercial or Metered Customers:		
0-2,000 gallons	\$19.00 per month	\$23.00 per month
over 2,000 gallons	\$3.50 per 1,000 gallons	\$4.20 per 1,000 gallons

By June 27, 2001, Staff had received objections to the proposed increase from 68 customers, or approximately forty percent of the Company’s customers. On July 3, 2001, the Commission issued a Preliminary Order in which it (i) declared Valley Ridge’s proposed rates to be interim and subject to refund, and (ii) directed Valley Ridge to file certain financial information on or before August 2, 2001.

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<sup>1</sup> Virginia Code §§ 56-265.13:1 *et seq.*

On August 3, 2001, Valley Ridge filed its financial information with the Commission. On August 27, 2001, the Commission issued its Order for Notice and Hearing in which it directed Valley Ridge to publish notice, established a procedural schedule, and assigned the matter to a Hearing Examiner.

No person participated in the case as a Respondent. Subsequent to the Commission's procedural order, no person filed comments on Valley Ridge's proposed rate increase.

On January 23, 2002, the evidentiary hearing was convened as scheduled. Representing Valley Ridge at the hearing was Edward K. Stein, Esquire. Rebecca Hartz, Esquire, represented the Staff. No public witnesses appeared at the evidentiary hearing. Filed with this Report is a transcript of the hearing.

## **SUMMARY OF THE RECORD**

Valley Ridge is located in Alleghany County, Virginia.<sup>2</sup> As of August 31, 2001, the Company had 172 unmetered customers and four metered commercial customers.<sup>3</sup> The Company's current rates became effective on October 1, 1993.<sup>4</sup> E. C. Dressler has owned and operated Valley Ridge since June 30, 1999.<sup>5</sup> Mr. Dressler submitted financial information in support of the proposed increase on August 3, 2001, and on October 25, 2001.<sup>6</sup> The financial information supplied by Mr. Dressler contained, among other things, federal income tax returns for Valley Ridge for 1999 and 2000.<sup>7</sup>

On December 20, 2001, Staff filed the testimony and exhibits of Ashley W. Armistead, Jr., principal public utility accountant with the Commission's Division of Public Utility Accounting; and Marc A. Tufaro, assistant utilities analyst with the Commission's Division of Energy Regulation. Mr. Armistead examined the Company's books and records, and prepared adjusted financial statements for the twelve months ended August 31, 2001.<sup>8</sup> Generally, Mr. Armistead found that Valley Ridge's records were not maintained on an accrual basis consistent with the Uniform System of Accounts for Class "C" Water Utilities ("USOA") and that the Company failed to differentiate accurately between the booking of expenses and capital projects.<sup>9</sup> After adjusting to bring the Company's records into compliance with the USOA and to reflect other known and measurable changes, Mr. Armistead calculated that Valley Ridge's proposed rates would produce \$81,262 in annual revenues.<sup>10</sup> Furthermore, Mr. Armistead determined that such revenues would produce an annual operating income

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<sup>2</sup> Exhibit AWA-2, at 1.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> *Id.* at 1-2.

<sup>6</sup> Exhibit Company-1.

<sup>7</sup> *Id.*

<sup>8</sup> Exhibit AWA-2, at 2.

<sup>9</sup> *Id.*

<sup>10</sup> Exhibit AWA-2, Statement II.

of \$5,611, for a return of about 5.16% on a total rate base of \$108,694.<sup>11</sup> Finally, Mr. Armistead recommended that the Commission order Valley Ridge to:

- 1) Maintain a set of books for the utility in accordance with the USOA for Class “C” water utilities;
- 2) Apply a 3% composite rate to all depreciable plant balances and to contributions in aid of construction (“CIAC”);
- 3) Maintain all invoices in pertaining to both expenses and capital disbursements;
- 4) Maintain property records on capitalized plant items;
- 5) Maintain logs of Mr. Dressler’s time, detailing services provided and mileage for use of the Company truck; and
- 6) Restate plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC as of August 31, 2001, to levels determined by Mr. Armistead.<sup>12</sup>

In his testimony, Mr. Tufaro discussed the Company’s rate application and customer comments.<sup>13</sup> Specifically, Mr. Tufaro discussed the petitions received by the Division of Energy Regulation as of June 27, 2001, in which approximately forty percent of the Company’s customers objected to the proposed rate increase and requested a hearing.<sup>14</sup> According to Mr. Tufaro, the Company’s customers objected to the proposed rate increase on three grounds. First, customers asserted that Valley Ridge has done little to date to improve the quality of the water they receive.<sup>15</sup> Second, customers contended that the proposed rates exceed the rates charged by other providers of water in the area.<sup>16</sup> Finally, customers claimed that the area served by Valley Ridge is not a high-income area and that most of the customers of the Company are retired.<sup>17</sup>

In response to the concerns raised by customers of Valley Ridge, Mr. Tufaro described Staff’s inquiry with the Virginia Department of Health Office of Water Programs (“VDH-OWP”), which is responsible for granting operation permits and conducting periodic inspections of water systems.<sup>18</sup> From VDH-OWP Staff learned that the Valley Ridge water system must improve the filtration and

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<sup>11</sup> *Id.*

<sup>12</sup> Exhibit AWA-2, at 7.

<sup>13</sup> Exhibit MAT-3.

<sup>14</sup> *Id.* at 2.

<sup>15</sup> *Id.* at 5.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> *Id.* at 5-6.

disinfection of the spring used to provide water to customers.<sup>19</sup> In addition, VDH-OWP indicated that because of the age of its system, the replacement of the Company's water lines is important.<sup>20</sup> Mr. Tufaro stated that Valley Ridge "has cited these improvements as the major reason for this increase."<sup>21</sup>

In summary, Mr. Tufaro recommended that the Commission approve the Company's proposed rates.<sup>22</sup> Mr. Tufaro further indicated that Staff would continue to monitor the progress of Valley Ridge in its efforts to comply with the requirements of VDH-OWP.<sup>23</sup> Also, Mr. Tufaro advised that the Company should make a better effort to inform customers of major capital improvements.<sup>24</sup>

At the evidentiary hearing, counsel for Valley Ridge stated that the Company accepted all of Staff's recommendations.<sup>25</sup> Thus, the Company's financial exhibits and Staff's testimony and exhibits were entered into the record without cross-examination.<sup>26</sup>

## **DISCUSSION**

Evidence of Mr. Dressler's commitment to make capital improvements for Valley Ridge is provided in the depreciation and amortization schedule attached to Staff witness Armistead's testimony.<sup>27</sup> In column two of this schedule, Mr. Armistead provides amounts added to plant in service, by year. Mr. Armistead shows that in 1999, \$54,631 was added to plant in service, and in 2000, \$51,308 was added to plant in service.<sup>28</sup> In contrast, the total amount added to plant in service for years 1972 through 1998, totals only \$11,132.<sup>29</sup> Thus, it appears from Mr. Armistead's schedule that Mr. Dressler has begun to make improvements in Valley Ridge's facilities over the last few years.

Accordingly, based on Valley Ridge's application and a review of the record, I find the Company's proposed rates, and Staff's other recommendations to be just and reasonable. Therefore, I find that the proposed increase in rates and Staff's recommendations should be adopted.

## **FINDINGS AND RECOMMENDATIONS**

In conclusion, based on the evidence received in this case, I find that:

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<sup>19</sup> *Id.* at 6.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*

<sup>25</sup> Stein, Tr. at 7-8.

<sup>26</sup> Tr. at 3-4.

<sup>27</sup> Exhibit AWA-2, Appendix A at 8.

<sup>28</sup> *Id.*

<sup>29</sup> Sum of 1,624+145+690+240+156+520+1,655+1,346+1,470+646+(531)+50+980+316+225+375+2,715.

- (1) The use of a test year ending August 31, 2001, is proper in this proceeding;
- (2) Valley Ridge's test year operating revenues, after all adjustments, were \$56,310;
- (3) Valley Ridge's test year operating revenue deductions, after all adjustments, were \$74,112;
- (4) Valley Ridge's test year operating loss, after all adjustments was \$17,802;
- (5) Valley Ridge's current rates produce a return on adjusted rate base of -16.38%;
- (6) Valley Ridge's adjusted test year rate base is \$108,694;
- (7) Valley Ridge requires \$81,262 in gross annual revenues to earn a return on rate base of 5.16%;
- (8) Valley Ridge's proposed rates produce additional gross annual revenues of \$24,952 and total gross annual revenues of \$81,262;
- (9) Valley Ridge should be required to maintain a set of books in accordance with the Uniform System of Accounts for Class C water utilities;
- (10) Valley Ridge should apply a 3% composite rate to all depreciable plant balances and to contributions in aid of construction;
- (11) Valley Ridge should maintain all invoices pertaining to both expenses and capital disbursements;
- (12) Valley Ridge should maintain property records on capitalized plant items;
- (13) Valley Ridge should maintain logs of Mr. Dressler's time detailing services provided and mileage for use of the Company truck;
- (14) Valley Ridge should restate plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC as of August 31, 2001, to levels determined by Mr. Armistead;
- (15) Staff should continue to monitor the efforts of Valley Ridge to comply with the requirements of the Virginia Department of Health Office of Water Programs; and
- (16) Valley Ridge should inform customers of major capital improvements.

In accordance with the above findings, ***I RECOMMEND*** the Commission enter an order that:

1. ***ADOPTS*** the findings in this Report;
2. ***GRANTS***, and makes permanent, the rates requested by Valley Ridge; and
3. ***DISMISSES*** this case from the Commission's docket of active cases and passes the papers herein to the file for ended causes.

## **COMMENTS**

The parties are advised that pursuant to Rule 5 VAC 5-20-120 C of the Commission's Rules of Practice and Procedure, any comments to this Report must be filed with the Clerk of the Commission in writing, in an original and fifteen copies, within twenty-one days from the date hereof. The mailing address to which any such filing must be sent is Document Control Center, P. O. Box 2118, Richmond, Virginia 23218. Any party filing such comments shall attach a certificate to the foot of such document that copies have been mailed or delivered to all other counsel of record and to any party not represented by counsel.

Respectfully submitted,

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Alexander F. Skirpan, Jr.  
Hearing Examiner